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C O N F I D E N T I A L SECTION 01 OF 02 SAN JOSE 002931

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SUBJECT: PRESIDENTIAL CANDIDATE OTTO GUEVARA WILL

COOPERATE WITH AN ARIAS GOVERNMENT

Classified By: Charge Russell Frisbie for reasons 1.4(b) and (d)

Summary

1. (C) Presidential candidate Otto Guevara, though rising in the polls, does not expect to be elected. He does expect, however, that his Libertarian Movement Party will be a major force in the next Legislative Assembly. He told Ambassador that he has already discussed with the frontrunner Oscar Arias the possibility of their respective parties joining forces after the election to ratify CAFTA-DR, pass the implementing legislation, and cooperate on a number of necessary and overdue economic reforms, such as liberalizing the concessions law. Guevara said that he and Arias will be at odds mainly over the issue of taxes - - Arias wants to raise them, and Guevara emphatically does not. End summary.

Election Campaign

2. (SBU) On December 14, Ambassador paid a courtesy call on Otto Guevara, founder and presidential candidate of the Libertarian Movement Party, who is running third in the polls behind Oscar Arias and Otton Solis. Guevara's 15 percent showing in the polls, however, is a quantum leap above where he was four years ago when he got less than 2 percent of the vote for president. Guevara's libertarianism has a growing following in Costa Rica but remains hard for the majority to swallow. Many see him as a right-winger and a shill for big business. He has fought tooth and nail (and successfully) against President Pacheco's efforts to raise taxes; he is a strong proponent of CAFTA-DR; and he would (if he could) do away with all the state monopolies and reduce dramatically the size of the state in general. The meeting took place at Libertarian Movement Party headquarters. Guevara was accompanied by vice presidential candidate Rogelio Pardo, and Ambassador by Polcouns.

3. (SBU) Guevara said that his electoral goal was to come in second place and then challenge Arias in a run-off election. Likewise, he hopes that the Libertarians will become the second power in the Legislative Assembly after Arias's National Liberation Party (PLN). (Note: Polls suggest that these goals are overly optimistic; the Libertarians will do well to be the third-place party). Guevara noted that his party was founded only in 1994, elected its first Assembly member (him) in 1998, elected six more (one of whom left the party) in 2002, and now stood a chance to gain 15 to 17 seats in the Assembly. (Note: This is unlikely).

Libertarian Economics

4. (SBU) Guevara and Pardo want to break up state monopolies, give free rein to the private sector, and create a state that is much leaner yet stronger. Their philosophy is influenced by Latin American economic reformers such as Hernando de Soto of Peru and Jose Pinera of Chile whom they cite frequently. Pardo said that Arias in 1986-1990 provided public housing but did not give the poor unencumbered legal titles to their holdings. Thus, the poor cannot use their houses as collateral to borrow money to invest in starting new businesses. The Libertarians, Pardo said, will grant airtight legal titles, so that owners can obtain mortgages, sell, or do whatever they like with their property. Guevara said that Libertarians would also privatize the state pension system, along the Chilean model, so that each worker would have his/her own account based on his/her own contributions.

5. (SBU) The kinds of reforms advocated by de Soto and Pinera, Guevara argued, turn workers into capitalists and link them directly to the benefits of the market economy. This strengthens democracy, Guevara believes, and, by removing politicians from the economic sphere, allows the government to focus on its real duties, such as stopping crime, running an efficient justice system, and managing foreign affairs.

6. (SBU) Guevara said that Libertarians are against President Pacheco's and candidate Arias's efforts to increase taxes in order to reduce the fiscal deficit. The problem in Guevara's view is a lack of control over spending, waste, corruption, tax evasion, and a complex and unfair tax system. Guevara said he is attracted to the idea of a flat tax as advocated by Alvin Rabushka of Stanford University. Guevara expected that Pacheco's fiscal reform package, introduced three and a

half years ago, will come to a vote next year but then be delayed further by the Libertarians' constitutional challenges to the legislation.

Possible alliance with Arias

17. (C) Guevara told Ambassador that although he disagrees with Arias on taxes, he believes that the Libertarians and the PLN will be able to cooperate after the elections to ratify CAFTA-DR, pass the implementing legislation, and liberalize the concessions law. He said that the PLN and Libertarians together are likely to have a solid majority in the next Legislative Assembly. He said that Antonio Alvarez Desanti's Union for Change Party will have about one to three members in the Assembly and can also be expected to join in an informal coalition.

18. (C) Guevara said that the GOCR urgently needs to deal with the problem of concessions. The airport concession in particular has been a disaster with construction stalled for several years. Guevara also said he favored an end to President Pacheco's moratoriums on oil exploration and open-pit mining. The question for Guevara is whether oil and minerals can be obtained without undue harm to the environment; opposition that is scientific is valid, Guevara said, but opposition that is ideological is not.

Comment

19. (C) The Libertarians are the most disciplined party in the 57-member Legislative Assembly and are far more influential than their small number of members (five) would suggest. With Guevara's strong leadership, the Libertarians during the whole of the Pacheco Administration single-handedly blocked the president's tax increase. In the next Assembly the Libertarians could be twice as strong, and Guevara will still be behind the scenery pulling the strings.

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